

SB 1127 would create an administrative nightmare for employers

Twenty-two cities in Michigan impose a city income tax on residents and nonresidents. Requiring employers to track, withhold and remit city income taxes in cities where the employer's employees reside but does not have nexus (physical presence) itself creates an expensive, time-consuming administrative burden with no benefit to the employer.

In Michigan and throughout the country, businesses must meet a nexus threshold before they assume any liability for collecting taxes. SB 1127 dismantles the nexus threshold and would require businesses to jump through administrative red tape to withhold and remit taxes to numerous additional taxing entities. These new burdens would be imposed by cities where the employer receives no services or compensation for collection. Due to the increased workload, employers that utilize a third-party payroll administrator would likely see a large fee increase to cover the additional administrative requirements under SB 1127.

Responsibilities imposed by SB 1127 on employers:

Employers with third-party payroll administrators

1. Be knowledgeable of which, if any, employees reside in a city with an income tax and frequently make updates in the event of an employee's change in residency
2. Register to collect city income tax in all cities where the employer has nexus
3. Register to collect city income tax in all cities where employees reside
4. Regularly update third-party payroll administrator on withholding procedures for all employees
5. Assume liability for correctly withholding and remitting city income taxes, even in cities where the employer has no nexus. Be prepared for audit examinations.

Employers without third-party payroll administrators

1. Be knowledgeable of which, if any, employees reside in a city with an income tax and frequently make updates in the event of an employee's change in residency
2. Register to collect city income tax in all cities where the employer has nexus
3. Register to collect city income tax in all cities where employees reside
4. Become familiar with numerous different filing procedures, forms and updates to the 22 different city income taxes
5. Manually calculate and withhold numerous city income taxes
6. Track down, fill out and submit numerous different city income tax forms and withhold income taxes to all of the cities where employees reside
7. Assume liability for correctly withholding and remitting city income taxes, even in cities where the employer has no nexus. Be prepared for audit examinations.

Employers should not be on the hook to collect income taxes in cities where the employer does not have nexus. MRA urges legislators to VOTE NO on SB 1127 and stop the expansion of tax liability, administrative burdens and added expenses for employers to collect a tax the taxing jurisdiction is unwilling or unable to collect on its own.